The 7 Deadly Sins of Financial Freedom - Part 5

[0:00:11] ST: Welcome nation to the Financial Rockstar Show. I'm your host, Scott Alan Turner, ready to help you get out of debt, save more money and retire early. In the studio with me is producer Katie, who loves action movies, the more explosions the better. On the show today, we'll be answering your question about money, business and life. If you have a question you would like answered on the show, visit goaskscott.com.

Now, we are in a series called The Seven Deadly Sins of Financial Freedom. Yesterday in part four, I talked about pride and how I was such a smart and awesome investor picking individual stocks like Yahoo, so good in fact that I lost $40,000. If you want to master your finances, I explained how pride can trip us up so be sure to check out yesterday's show.

Now in college, I pulled a muscle in my lower back and I injured it so bad I could barely walk to class for three days. It took me about 10 minutes just to get out of bed in the morning, it hurts so bad and I slept on the top bunk which made it even worse. I couldn't just roll out of bed, I had to get up and then climb down out of bed.

Today, the only remedy that I have to my bad back is lifting weights. I cannot become complacent and to think, "Oh my back is feeling great. I'm done working out." If I quit doing some type of back workout after about three weeks, my back becomes so bad I can't sleep through the night without it tightening up and keeping me awake. So I have to make physical activity part of my life to avoid being in pain.

Now today, we're talking about how I used to act when I started earning more money and quit paying close attention to my finances like a sloth. Autopilot is a wealth killer. If you're not moving forward, you're not moving. If you're not improving your relationships, your health, your finances, you are stagnant. Do you know what happens to stagnant water? It breathes disease and bacteria. It becomes undrinkable. It grows algae and becomes slimy and gross.

If you become complacent when it comes to your budgeting, your saving, your investing, if you stop paying attention and coast because things seem to be going well, you will start losing what you've gained. You will start slipping back into old habits. If you're trying to get out of debt and you stop focusing on getting out of debt even for a day, you'll start slipping right back into overspending.

Now, for beginning investors, I've talked about target date funds as a great way for you to get started investing. It's great because it's easy and a comment on the strategy is set it and forget it. And as a beginner, you should set it and forget it because as a beginner, the most important step you can make is to get started and to get started today but as you mature in your financial journey, I encourage you to start becoming an expert. Learn more about investing and how target date funds work. You may find after being in one for a few years, there might be better options for you that give you more control of your money.

Hear me, I'm not saying target date funds are bad. I am saying don't be complacent and think you can just sign up, automate your withdrawals and check out until at age 65 whether you're in a target date fund or whether you're working with a financial adviser. A target date fund is just an automated robotic financial expert. It would behoove you, a five dollar word, behoove you to know that computer is doing on your behalf. Building wealth comes from consistently creating more income, investing and maintaining what you have.

So what are the three tips on how to be active in your finances? Number one, research things you buy to get the best prices for, food mortgages, insurance, car loans, appliances. Number two, be active in your investments. Know what you're invested in and why and question everything. And third, continue to education yourself for the rest of your life, until you die, on personal finance. You can't be enough of an expert. Now, onto your questions.

Nancy writes in:

[0:04:32] N: "I have crippling student loan debt that I can't get ahead of. It pushes off everything else buying a home, saving for retirement, etcetera. I'm 31 and earn $70,000 a year. I have over $100,000 in student loans. I am very worried about retirement if all I can do in the next five years is to pay off debt."

[0:04:51] ST: So Nancy and I are e-mailing back and forth. She went back to school to get a degree in and area she knew she could find employment in and she obviously did since she's now making $70,000 a year. She's got no other debts and is getting the company match in her 401(k). She's already paid off 20 grand in loans above and beyond the minimums.

Now on paper, things look much worse than they are. When I heard her complete story, I think to myself, "This person has got their act together. They are going to be golden." According to the National Institute of Retirement Security, 45% of workers have no retirement savings and people 55 to 64 average $12,000 for retirement, that's not good.

For getting near retirement, the average is up to a whopping $100,000. That is not much money to finance the next 20 to 30 years of someone's life and retirement. So when I compare Nancy to her peers, I put you ahead of 99% of them. Now why are you so high? Number one, you have no car loan. You have no credit card debt. You are investing 5% to get the company match.

You made a smart career move. I saw the writing on the wall and made a change and more importantly than anything else, you have a plan. You are a little behind the ideal age to get started investing but it is a rare bird that start saving for their retirement when they're 21 or even 25. You'll have to do some catch up once the student loans are paid off but you have the income and discipline to make it up.

You are in way better shape than people who aren't getting started for their retirement until they hit their mid 40's. If you started saving $1,000 a month, at age 31 you would have a $3.9 million at age 65 before inflation. If you delay it until age 38, seven years from now, you would have $1.8 million investing that same thousand dollars.

If you bump it up to $1,500 a month, it goes up to $2.7 million in retirement. You go even bigger, $2,000 a month, $3.6 million in retirement. That's a lot of money so I understand about the worry about starting late. Try out this online calculator which I will include in the show notes. I use 10% as a rate of return on it and you can plug in numbers. I think you'll find you can have some serious money in retirement if you simply switch some percent of the funds from debt payment to investing when the student loans are paid off.

You'll still be able to ease up on the investing to save for a house when the time comes and still be in good retirement shape based on what you're saving now in your 401(k). And yes, there is nothing fun about paying off debts for months and months and months. I suggest to people, set up little milestones, little celebrations for yourself along the way. You are really attacking these debts hardcore Nancy. Writing down a future date on the calendar to have a nice meal, a bottle of wine, Ben & Jerry's ice cream to look forward to, whatever makes you happy and keeps your sanity. Keep up the great work.

Derick is considering his college choices and wants to know if it's better to go a public school or a private school. Better for what? Better for your wallet, public school. Better education, well there are good and bad professors at every school. Better for parties, they're both great choices. Better for your job prospects, your diploma is just a piece of paper no matter where you go with a couple of exceptions. Ivy league schools, Harvard, MIT, Yale, you have a little bit better job prospects.

Now, I went to a small private college to get my degree. Why did I chose my school? Well they gave me a partial scholarship and I like the weather in the South. I am from the north, I'm sick of the winters. I like the warm weather. Excellent reasons right? I could have stayed in state and got a cheaper education and probably a better education at a larger university but man, I was sick of that cold weather. Cost was a consideration in where I ended up going, I couldn't be crazy expensive or else I couldn't have gone there without taking on more student loans.

Once again, I talk about goals. What's the end game of you going to school? For most students, we're just trying to get a piece of paper that says we graduated. That's all we need to get past that one qualification for a job interview. Do you have a degree in business or finance or IT or science? The HR person is going to go, "Check!" Onto the question unless you are trying to go work for the top law firm, the top accounting firm, Google. Who signed your diploma or where it comes from don't mean diddly.

Now, some of you may think otherwise that's my take from running businesses, from interviewing over a hundred people, I don't care where you went to school. I'm not running Google though, they have a different hiring process. Some high profile schools give you a bit of an edge in some situations. But you better be a freaking stellar candidate no matter where you went to school.

So producer Katie did a little bit of research. The current full cost of a year of a private education is approximately $45,000 a year, wow. Public school is about half that, $22,500 so that is a huge difference. That extra $22,500 doesn't equate to guaranteeing you earn that back or more over your working lifetime. Schools don't guarantee higher incomes by you attending them, not that I've heard of anyway. Thanks for your question Derick.

Bernice is getting ready to purchase her first home.

[0:10:33] B: "I've saved up enough for 20% down payment on a small home. I am trying to figure out how much insurance I should get and what kind."

[0:10:41] ST: So you generally have three options to choose from when deciding how much home insurance you need and each of these options provides a different level of coverage for your home. First, you have an actual cash value that pays for the cost to replace damaged property after subtracting out the depreciation.

Then you have replacement cost. That pays for the cost to replace damaged property without factoring in the deductions for depreciation but the payment is limited to a maximum dollar amount, and we'll get into some examples for this in a second and the third is guaranteed replacement cost. That pays the full cost of replacing a damaged property, no deduction for depreciation and no dollar limit. Allowing for this amount protects you in case of an increase in construction cost or other building related fees due to inflation. Not available in all states. Some insurances capital limit add a 120% of the cost to build your home.

Alright, so let's explain each of these. Let's say, your living catches on fire and last year, you bought a $2,000 living room set. If you have actual cash value of policy, the insurance company might say, "That living room set is only worth $1,500 because it's a year old." They write you a check for $1,500. If you want to go buy a new living room set, you're going to have to pay the extra $500 yourself if you want to get the same set.

Now, with replacement cost, let's say this same living room set now cost $2,100. The insurer is going to end up paying you the full $2,100 because that's what it will cost you for a new replacement living room set. That's way better, you're not out of pocket. Now, with guaranteed replacement cost, let's say your home just burns down to the ground. The claims adjuster comes in, they say it's going to cost $150,000 to rebuild based on what building materials are going for in your area.

Now then suddenly, a hurricane comes in and it destroys 5,000 homes. You know what happens when hurricanes come in? Suddenly the price of building materials shoot up. Let's say they shoot up 25%. Lumber is more, cement is more, labor is more because there is a labor shortage. It's not going to cost you even more to rebuild your home because of this natural disaster with a guaranteed replacement cost, you've got that extra coverage if the price of construction rises up to a point anyways.

So your best option is guaranteed replacement cost in the home owner's policy. It's an insurance policy that pays for the entire cost of replacing or repairing property even if it's beyond the policy limit, but it is also the most expensive policy you can get. Now at a minimum, you want a policy that includes replacement cost. Actual cash value is the worst choice because it pays you the depreciated amount of all your belongings and stuff.

So stay away from that, don't get actual cash value. Pay the extra, get the replacement cost. If you can afford it, get the guaranteed replacement cost. Prices, they can vary widely from the different insurance companies for the same type of coverage. So that's why you've got to shop around and if you want to find out who's the best and worst insurers, head to your local library and check out consumer reports. If something bad happens and you do need to file a claim, you want to be working with someone who isn't going to try to nickel and dime you to death. Thanks for the question Bernice.

I like that name, Bernice. If you have a money related question you would like answered, please visit goaskscott.com to get in touch with me. That website has my e-mail address, Twitter and you can also leave me a voicemail, please contact me. I am here to help you.

[BREAK]

[0:14:26] ST: What happens if we lose a piece of luggage and the ID tag was ripped off. It will probably end up being bought by the unclaimed baggage center in Alabama. It is the only store in America that buys and sells unclaimed baggage from the airlines. It's the country's largest lost baggage retailer. It sells everything from watches and diamond earrings to hats and cameras.

The store opened at 1970 and they have an agreement with the airlines to resell the contents of unclaimed luggage for half the original value. The business has become a 50,000 square foot store with over 110 workers and it's got a café selling

Starbucks. The company has a tiny museum where you can see some of the rare items that don't make it to the public sale such as a leather Stetson hat signed "To Brent from Muhammad Ali".

They have a 1770 violin and they have a Muppet from a Jim Henson movie. Now, 60% of the contents of the store are clothes since, well that's most of us pack when we travel, all the clothes are washed or dry cleaned before they put it up for sale. Some of the other items that they've sold, interesting stuff, a Versace gown straight off the runway, a platinum Rolex valued at over $60,000. A painting tagged at $60 that proved to be worth $25,000.

And to be fair to the airlines, they do try to reunite us with our lost luggage. They open it up, they look for ways to identify the owner, they hold onto the bags for three months before selling it off and 99.5% of luggage does end up where it belongs but the remainder gets sold off. If you are planning an RV trip, if you are an international traveler coming to America in the future, you happen to be in the neighborhood of Alabama passing through, add the Unclaimed Baggage Center to your list of must see attractions. You never know what kind of deal you could find. You can also visit their website, unclaimedbaggage.com for more information. Sorry, they do not have an online store. You've got to go there and buy in person.

Now, back to your questions. Joseph just received a $5,000 bonus from work. He has no debt other than his house. He's got his three to six month emergency fund in place. Contributes some money to his 401(k) and wants to get started investing. He wants to know if investing in all the stock picks the loud mouth on TV recommends is the way to go.

Nice job on the bonus dude, five grand, sweet chunk of change. So let's start out by not blowing it because you worked too hard for it. Now, I inserted the words loud mouth there nation. Any financial show you watch on TV, there has to be some loud mouth spotting off the next hot stock tips and of course, those tips change every day.

If you bought and sold ever stock every expert told you, every time they told you to buy something every day, in the course of the year, you would be broke and you would be broke because of the transaction fees alone. Single stock investing is a terrible idea. That is my opinion but it's also backed up by statistics from multiple studies over multiple periods of time by multiple people and multiple organizations that are all much, much, much smarter than me.

80% of professional mutual fund managers fail to get the average 10% return on the stock market. Those are professionals. Those are people that are paid to do better than you and I. They end up doing worse. Now, do some people do better? Of course, there are a rare few but they fail to do it consistently overtime. It's just like a gambler who goes to Vegas and fails to beat the house every time. Yeah, every once in a while you're going to win a few hands.

If professional gamblers were that good, you would always see the exact same faces at the final table in the World Poker Championships. But, you don't. It's a different crowd each year. I'm sure, some of the people at the final table have been there before but out of the 10,000 or so plus people trying to get to that table, statistically there aren't a lot of repeats and they aren't in the stock picking world either.

There are a couple of people who claimed to have consistently beaten the market every year forever, that is they've gotten better than 10% returns. I've never done the research on those two or three people or bothered to invest in, in exactly what they do. I'm not buying it. It's not just about returns, you've also got to factor in taxes and transaction fees.

The easiest way to build wealth is to put your money in low cost index funds that mirror the market. They earn 10% a year overtime. If you are just dying to buy some Apple stock, some Google stock, or the Cupcake Factory because you really love cupcakes and think they're going to take off and they aren't, only put in an amount that you're not going to be sad to see evaporate.

It's no different than going to Vegas for a weekend and playing the craps tables or Black Jack. The few times that I have gone to Vegas, I'll gamble with a $100. I know the odds are against me and I'm not going to be too sad to lose a $100. I'm still going to be sad but not too sad. Once I lose my 100 bucks, I'm done.

Now, I have a friend who's very good at poker and he's good at craps. Most of the time, he comes back with money but he still sets a limit of how much he's going to spend each time he goes and it's not a big amount. You do what you want but if it's my money, I'm going to be a boring investor and pick some simple low cost index funds that get a guaranteed 10% return over a long period of time.

After losing a bunch of money trying to do what you're doing, I've become an expert at knowing how to make money and how to lose it. I don't do those things anymore and you won't hear me teaching anyone about it. Your card for those dollars, let's keep them around for as long as we can and watch them grow. Good luck Joseph and keep that money.

April has been dating her boyfriend for a year now. He is older and never been married but has a young son. She writes:

[0:20:35] A: "I'd like to marry him but he is irresponsible with his money. He owns a lot of toys, isn't the hardest worker and has a lot of debt, a truck, a boat, a motorcycle and credit cards. I don't know if I can handle it."

[0:20:46] ST: It sounds like the person that you are dating, as I would describe him, is a man child. A person in a man's body who has never grown up. Now, this type of person is always irresponsible. They can't manage their finances, they don't take care of their relationships and that's why they end up being single for a very long time.

They date someone for a while and hey, it's a lot of fun. They're entertaining, they like to go out, they like to party, they have a lot of buddies and are never home on the weekends because they're always watching the game or going to concerts. They're great people to date because they're so much fun but what happens is the other person eventually figures it out, leaves and then the cycle repeats.

Now, they enjoy their lives, that's fine. If you enjoy being with him, that's great but if you're thinking marriage and you they no control over their money, you are signing up for a disaster. I mean you are heading straight into a firestorm and you can see it coming. It's like staring at the sun. You know it's bad for you but you're just can't look away.

And asteroids are falling out of the sky too and laser beams and they are Sharknado in your path. Sharknado — anybody ever watched Sharknado? That is a must see TV nation, Sharknado, make a note. I'll put that in the show notes too. It's on your watching list for this weekend, Sharknado.

Okay, I'd be crystal clear with him and say, "Hey, if we get married, what's going to happen with all these debt? What's your plan?" And if the best he can come up with is, "Oh, I'll take care of it," that's not an answer. That's nothing, that is not a statement that would give me warm and fuzzies and it's not an answer that should provide you with any peace or sense of security. Half of all men just end up in divorce and half of divorces are caused by money problems.

So you've already got the money problems and you don't even have a wedding date set. If nothing changes, I give you about a 25% chance of having this work until you die. Those are not good odds. You need to be on the same page financially before you go down this road and sometimes these guys, they never want to get married. They want to stay single forever.

And you might think you can change that. You might believe you're the one who has the kryptonite and you may very well be. That's what you need to figure out sooner preferably than later. If you're looking to get married or have kids, don't waste three years of your life trying to figure out the answer to that question either.

If he's interested in marriage, you better have a plan to get out of debt. Don't let those slip on this issue or give you some smooth talking to keep you around. Make him commit to the plan and see some results before you get married. Thanks for the question April.

Okay, a quick break back in 30 seconds. I'll be answering more of your questions. You're listening to Scott Alan Turner.

[BREAK]

[0:23:38] ST: Hi folks, Scott Alan Turner here. Now folks, for those of you who are my long time listeners, you know that I'm not one of those guys in the radio who promotes every product that shows up on their desk. You're never going to hear me trying to get you to buy crochet needles because I don't sew or recommend pool cleaning service from someone that's never cleaned my pool, if I had a pool.

No, I have a name to uphold to you my Rockstar listeners but if I were, if I were to recommend something to you, I would tell you about milk. It's delicious, it's nutritious, I have milk every day in the form of yogurt that I made myself from milk. If I am feeling like a bowl of Cheerios, I don't add water, I add milk. Once a week, I'll have a bowl of Ben & Jerry's ice cream which is made with, you guessed it, cream which is a form of milk.

Next time you are buying groceries and you're at the checkout counter, when they ring up that milk, tell them Scott Alan Turner sent you and ask for a discount.

[FINAL MESSAGE]

[0:24:42] ST: Welcome back nation. I hope you're going to go out and drink some milk. If you are living in the story of your life, what chapter would you be in right now and what section of the bookstore would I need to go look in to find your book? Are you in life and adventure, travel, self-help, or do I need to walk over the drama bookshelf and find you there?

Some of us are living in the children's section. It's good to have fun and we should be having fun but we need to act like adults occasionally a few minutes a day anyway. Don't lose that childhood spirit. If your life is 15 chapters long and you're up to chapter six, eight, 10 or whatever, how is it looking so far? Is it positive and uplifting or is your life a tragedy?

Now, we're all looking for that happy ending, right? And that's the thing, we're looking for an end out, an escape. 10 years from now, things will be better right? Or maybe eight or when I retire but what about now? Why wait for the happy ending? In the middle of that book, that's your life. Make it a happy middle. The first few chapters, they're over. We wrote those, ups, downs, mistakes, successes and that stuff is done.

I want you to live the story that you would write for you. We can't rewrite history. We can't rewrite what's already been written. We can write the future so that a year from now, our history and our chapters will look a whole lot different than what it does today. I feel like I'm in a Star Trek movie and we're talking about time travel. Are you still with me? Live the story that you would write for you. Those are the words.

Next time on the show, we continue the series, The Seven Deadly Sins of Building Wealth, wrath, and more of your questions. That's it for this episode. I'm your host, Scott Alan Turner, rockstar Katie is my producer. All of the links that I've mentioned on the show are available on the show notes on scottalanturner.com.

Today's episode was powered by Ben & Jerry's ice cream which is made with cream which is a kind of milk. Thanks for listening.

[0:26:20] ANNOUNCER: You're not alone on your journey to live a financial rock star life. That's why we put together a free eBook just for you. Go to financialrockstar.club to receive your free guide on how to save $1,000 in one week and start getting out of debt, saving more money and retiring early. See you next time.

[END]